

PUBLIC DISCLOSURE

April 9, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Spalding City Bank
FDIC Certificate Number: 13891**

**121 North Chestnut Street
Spalding, Nebraska 68665**

**Federal Deposit Insurance Corporation
2345 Grand Boulevard, Suite 1200
Kansas City, MO 64108**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The bank's CRA performance, as supported by the following findings, depicts a satisfactory record of meeting the credit needs of its designated assessment area.

- The bank's average net loan-to-deposit ratio of 42 percent since the previous evaluation reflects a reasonable willingness to extend credit given the assessment area credit needs and competition within the assessment area.
- A substantial majority of the loans and other lending activities are in the bank's assessment area.
- An analysis of agricultural loans in the assessment area revealed an adequate distribution of loans among farms of different sizes. In addition, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low-income and moderate-income).
- The bank has not received any CRA-related complaints since the previous evaluation dated May 20, 2002.

SCOPE OF EVALUATION

This evaluation includes a review of the bank’s CRA performance since the previous evaluation dated May 20, 2002 when the bank was rated “Satisfactory”. Conclusions with respect to the following three performance criteria under the lending test, *Lending in Assessment Area*, *Lending among Businesses of Different Sizes and to Borrowers of Different Income Levels*, and *Geographic Distribution of Loans*, are based on a review of the institution’s agricultural loan and residential real estate loan portfolios. Commercial loans were not reviewed as they represented only 5 percent of the loan portfolio. The time period reviewed for agricultural loans was from September 19, 2006, to March 19, 2007, and the time period reviewed for home mortgage loans was from March 19, 2005 to March 19, 2007. Information on paid off loans was unavailable. The agricultural loan sample included 29 loans totaling \$3,374,045 out of a total universe of 82 loans totaling \$8,412,460. The residential real estate loans sample included 10 loans totaling \$452,817 out of a universe of 14 loans totaling \$618,876. The bank’s agricultural lending performance is given more weight in the analysis since this lending is a primary emphasis of the bank.

DESCRIPTION OF INSTITUTION

Spalding City Bank, Spalding, Nebraska, has one full-service location in Spalding, Nebraska. The bank is owned by Spalding City Corporation, a one-bank holding company. The bank’s financial condition allows it to serve the needs of the local area. No legal impediments exist which would inhibit the bank’s willingness and ability to meet community credit needs. As noted above, the bank was rated “Satisfactory” at the prior CRA Performance Evaluation on May 20, 2002.

The bank is located in north central Nebraska. As of December 31, 2006, the bank had total assets of \$37,971,000, net loans of \$12,259,000, and total deposits of \$34,622,000. The bank’s primary business focus is agricultural lending as evidenced by the loan portfolio distribution detailed in the table below. As of December 31, 2006, 78 percent (\$9,759,000) of the bank's loans are for agricultural purposes.

Loan Portfolio Distribution		
Loan Category	Dollar Amount (000s)	Percent of Total Loans
Secured by Farmland	\$4,262	34%
1-4 Family Residential	\$1,312	11%
Secured by Non-farm nonresidential properties	\$286	2%
Agricultural Production Loans	\$5,497	44%
Commercial and Industrial Loans	\$354	3%
Other Consumer Loans	\$548	4%
Obligations of states and political subdivisions in the U.S.	\$291	2%
Total Loans and Leases	\$12,550	100%

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) requires financial institutions to identify one or more "assessment area(s)" within which the appropriate regulatory agency will evaluate the bank's CRA performance. Typically, an institution's assessment area will include the towns, cities, counties, or other political subdivisions in which its offices are located and a substantial portion of its loans are made. Assessment areas must consist of one or more census tracts (CTs), which are statistical subdivisions of a county.

The income level of the CT is based on median family income information from the 2000 Census. Therefore, in order to determine the income category for each geography located in the bank's assessment area, examiners compared the 2000 Census Bureau State of Nebraska non-metropolitan median family income of \$41,596 to the median family income for each CT.

<i>Low-income</i>	<i>Income of less than 50 percent of the area median family income (MFI)</i>
<i>Moderate-income</i>	<i>Income of at least 50 percent and less than 80 percent of the area MFI</i>
<i>Middle-income</i>	<i>Income of at least 80 percent and less than 120 percent of the area MFI</i>
<i>Upper-income</i>	<i>Income of at least 120 percent or more of the area MFI</i>

Assessment Area Discussion:

The bank's assessment area (AA) is CT 9736 in Wheeler County, which consists of the entire county, CT 9709 in Greeley County, the entire county, and Census Tract 9801 in Boone County, which consists of the entire county except for the city of Albion, in Nebraska. All three CTs are middle-income and are identified as both distressed¹ and underserved² non-metropolitan middle-income geographies due to population loss and their remote and rural locations. The banking office is located in CT 9709. According to management and a community contact, agricultural credit is the primary credit need in the (AA).

According to 2000 Census data, the AA has 2,164 families, of which 22 percent are low-income, 24 percent are moderate-income, 28 percent are middle-income and 26 percent are upper-income. 2000 Census data also showed that 11 percent of families live below the poverty level³.

¹ "Distressed non-metropolitan middle-income" geographies are those located in counties that meet one or more triggers that generally reflect the "distress criteria" used by the Community Development Financial Institutions (CDFI) Fund. The distress triggers are: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; (3) a population loss of 10 percent or more between the previous and most recent decennial census, or a net migration loss of 5 percent or more over the five-year period preceding the most recent census. The agencies will utilize annual information where possible.

² "Underserved non-metropolitan middle-income geographies" must meet criteria for population size, density, and dispersion that indicate that an area's population is sufficiently small, thin, and distant from a population center such that the geography is likely to have difficulty in financing the fixed costs of essential community needs. The agencies will use as the basis for these designations the "urban influence codes" numbered 7, 10, 11, and 12 that are maintained by the Economic Research Service of the United States Department of Agriculture.

³ Poverty level is an established dollar threshold rather than a percentage based calculation of the median family income. Specifically, for a family of four, the 2000 poverty level threshold was \$17,050; therefore, a family earning less than \$17,050 was below the poverty level. This figure is determined on a national level and is not adjusted regionally.

Population:

The 2005 estimated Census data indicates that the population in the AA, 7,835, has decreased 7.7 percent since the 2000 census. Management and a recent community contact indicated that the population in the Spalding, Nebraska area is declining and the community consists of an increasingly elderly population. The 2000 Census data shows 20 percent of the population in the AA to be above age 65, which is 3 percent higher than the average for the non-metropolitan areas of the State of Nebraska. The average for the entire state is 14 percent. The Department of Housing and Urban Development's estimated median family income for the non-metropolitan areas of the State of Nebraska for 2006 is \$51,400.

Economic Conditions:

Management and the community contact indicated that the AA's overall agricultural economy is stable with crop and cattle prices considered good. Major employers in the Spalding area include: the local Co-Op, Friendship Village (a retirement home), Molt Manufacturing, Nebraska Pork Producers and the local schools.

The 2002 Agricultural Census indicates that 35 percent of the farmers in the AA did not report any interest expense (i.e. non-borrowing farmers). Many of the local operators appear to be "hobby farmers". According to the 2002 Agricultural Census, 23 percent of the farmers in the AA indicated that farming is not their principal occupation. In addition, 25 percent of all farmers in the AA reported gross farm revenues of less than \$10,000 per year. These small farms typically have limited or no borrowing needs.

Housing:

Housing data from the 2000 Census shows that the AA has 3,571 housing units, with 21 percent of the units being rental-occupied and 15 percent vacant. The median age of homes in the AA is 59 years, the median housing value is \$47,065, and the median gross rent is \$299. The housing data indicates that the AA's housing is more affordable and older than the median for the State of Nebraska.

Other Financial Institutions:

There are several other financial institutions located in the AA. Management indicated its major competitors are Cedar Rapids State Bank (Cedar Rapids, NE), Ericson State Bank (Ericson, NE), Cornerstone Bank (York, NE) and City National Bank (Greeley, NE).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-To-Deposit Ratio Analysis

Examiners reviewed the bank's average quarterly net loan-to-deposit (LTD) ratio in order to evaluate the bank's performance for this criterion. A bank's net LTD ratio is calculated by dividing the institution's net loans and leases by its total deposits. The bank's net LTD ratio is then averaged for all quarter-ends since the last evaluation. Each institution's ratio is evaluated and analyzed using performance context, including the bank's capacity to lend, demographic and economic factors present in the assessment area, and the lending opportunities available in the bank's assessment area. Detailed below is an analysis of this performance criterion for the bank.

The bank's average net loan-to-deposit ratio reflects a reasonable willingness to provide credit given the bank's size, financial condition, community credit needs, and area competition. The bank has maintained an average 19 quarter net loan-to-deposit ratio of 42 percent. The bank's ratio is the lowest out of the five similarly situated lenders. Similarly situated lenders were selected based on similar size, product offerings, and proximity to subject bank's AA. The bank's net loan-to-deposit ratio as of December 31, 2006, was 35 percent. The ratio has ranged from a low of 30 percent on December 31, 2004, to a high of 51 percent on September 30, 2002. The bank's loan-to-deposit ratio has historically been lower than similarly situated lenders. Management indicated it was due to competition by other banks in the area and conservative lending philosophy. The community contact indicated the bank was willing to lend and this contact has referred others in need of loans to the bank.

Bank	City, State*	Total Assets (000s)	Avg. net LTD Ratio 19 Qtrs.	Net LTD Ratio 12/31/06
Cedar Rapids State Bank	Cedar Rapids, NE	\$33,729	79%	73%
Ericson State Bank	Ericson, NE	\$36,276	90%	89%
Petersburg State Bank	Petersburg, NE	\$27,237	87%	90%
Spalding City Bank	Spalding, NE	\$37,971	42%	35%
Bank of St. Edward	St. Edward, NE	\$38,320	80%	90%

* Banks are listed in alphabetical order by city.

Lending Inside the Assessment Area

Examiners reviewed the bank's assessment area lending concentration in order to evaluate its performance under this CRA criterion. Examiners typically sample loans and complete a comparative analysis that details loans extended inside and outside of the bank's assessment area. Detailed below is an analysis of this performance criterion.

A substantial majority of loans and other lending related activities are in the bank's AA. The agricultural loan sample revealed that 97 percent of the number (28 of 29) and 97 percent of the dollar volume (\$3,274,045 of \$3,374,045) of loans were in the AA. The residential real estate loan sample revealed that 90 percent of the number (9 of 10) and 92 percent of the dollar volume (\$414,816 of \$452,817) of loans were in the AA. This indicates a strong effort in lending in the AA.

Lending To Farms of Different Sizes

For this criterion, examiners determine the distribution of loans that the bank originated inside its assessment area by farm size using gross annual revenues.

The sample of agricultural loans made in the AA shows an adequate distribution among small farms. The agricultural loan sample revealed that 93 percent of the number (26 of 28) of loans the bank originated inside the AA was extended to farms with less than \$1,000,000 in gross revenue. In addition, 75 percent of the number (21 of 28) of loans was made to farms with gross income less than \$500,000.

According to the 2002 Agricultural Census information, the average sales per farm in the AA were \$323,952.

As previously discussed, a large percentage of the very small farms do not borrow money. The 2002 Agricultural Census indicates that 35 percent of the farmers in the AA did not report any interest expense (i.e. non-borrowing farmers). Another factor to consider is that many of the local operators appear to be “hobby farmers”. According to the 2002 Agricultural Census, 23 percent of the farmers in the AA indicated that farming is not their principal occupation. In addition, 25 percent of all farmers in the AA reported gross farm revenues of less than \$10,000 per year. These small farms typically have limited or no borrowing needs.

The bank’s lending to different size farms in the AA is reasonable when considering the hobby farmers and farms that have no borrowing needs.

Lending to Borrowers of Different Income Levels

The sample of residential real estate loans indicates a reasonable record of lending to borrowers of all income levels, including low- and moderate-income borrowers. In order to determine each borrower’s applicable income level, examiners utilized the Department of Housing and Urban Development’s (HUD’s) 2006 estimated median-family incomes for nonmetropolitan areas of Nebraska. The residential real estate sample revealed 33 percent of the number (3 of 9) and 18 percent of the dollar volume (\$76,714 of \$414,816) were made to low-income borrowers and 22 percent of the number (2 of 9) and 29 percent of the dollar volume of loans (\$120,400 of \$414,816) were made to moderate-income borrowers. This compares to 22 percent of the families in the AA being low-income and 24 percent being moderate-income. This indicates a reasonable record of lending to borrowers of different income levels.

Geographic Distribution of Loans

Examiners analyze the bank's performance under this criterion to determine if the bank is lending throughout its assessment area including the low- and moderate-income areas or geographies within the assessment area. The composition of the bank's assessment area by CT income level is important to this evaluation process because it is compared to where the bank originated its sampled loans by CT. Detailed below is an analysis of this performance criterion for the bank.

The bank's geographic distribution of loans is reasonable. Examiners did not give this criterion much consideration in the overall rating since all of the census tracts in the AA are middle-income. Overall, the bank's geographic distribution of loans is reasonable.

CRA Complaints

The bank has not received any CRA complaints since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.